

Message Text

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PAGE 01 TOKYO 18954 290939Z
ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-07
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TREASURY DEPT WASHDC
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AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL HONG KONG
USMISSION OECD PARIS

UNCLAS TOKYO 18954

DEPT PASS FEDERAL RESERVE, CEA, LABOR

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- DEC 23-29

1. SUMMARY: GOJ FINMIN SAYS INCREASED SPENDING FOR PUBLIC WORKS SHOULD BE MAIN APPROACH TO SPEEDING UP RECOVERY PACE ALTHOUGH MODEST TAX CUT MAY ALSO BE NECESSARY. HOW MUCH STIMULUS WILL BE NEEDED CONTINUES TO BE SUBJECT OF DISCUSSION HERE AND MITI ESTIMATE THAT INDUSTRIAL PRODUCTION AND SHIPMENTS RECORDED HEALTHY INCREASES IN NOV SUGGESTS A MODEST DOSE OF STIMULUS MAY BE SUFFICIENT. CONSUMER PRICES CONTINUE TO ADVANCE, ENDANGERING GOJ HOPES OF COOLING INFLATION IN THIS FISCAL YEAR. FIRST QUARTER 1977 BANK CREDIT GROWTH WILL BE SMALLER THAN THAT FOR CURRENT YEAR AS CREDIT DEMAND CONTINUES TO EASE. END SUMMARY.
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PAGE 02 TOKYO 18954 290939Z

L2. JAPAN'S NEW FINMIN HIDEO BO SAID IN PRESS INTERVIEW FOLLOWING HIS APPOINTMENT THAT GOJ SHOULD INTRODUCE INCOME TAX CUT AT LEAST LARGE ENOUGH TO COMPENSATE PEOPLE FOR INFLATION. BO, A LONG-TIME POLITICAL ALLY OF PM FUKUDA, HAS NOT HEADED ECONOMIC MINISTRY BEFORE BUT IS WIDELY REGARDED AS TOP LDP TAX EXPERT. IN THE INTERVIEW, NEW

FINMIN ALSO SAID THAT INCREASED TUTLAYS FOR PUBLIC WORKS WOULD BE PRINCIPAL INSTRUMENT FOR GETTING BUSINESS OUT OF CURRENT DOLDRUMS. SUPPLEMENTARY BUDGET PROVIDING FOR THESE OUTLAYS IS EXPECTED TO BE INTRODUIED AROUND MID-JANUARY WHEN DIET RESUMES AFTZR NEW YEAR'S RECESS.

3. INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, INCREASED 2.2 PERCENT IN NOV AND PRODUCERS' SHIPMENTS ROSE 3.5 PERCENT, ACCORDING TO PRELIMINARY ESTIMATES. FINISHED GOODS INVENTORIES ALSO INCREASED BUT RATIO OF INVENTORIES TO SHIPMENTS DECLINED. INCREASE IN MINING AND MANUFACTURING PRODUCTION INDEX REFLECTED PARTICULARLY STRONG RISE IN OUTPUT OF BASIC INDUSTRIAL COMMODITIES, SUCH AS PETROLEUM AND COAL PRODUCTS, METAL MANUFACTURES, NON-FERROUS METALS AND CHEMICALS. (FURTHER DETAILS ON NOV INDUSTRIAL PRODUCTION, SHIPMENTS AND INVENTORIES, REPORTED IN TOKYO GQIIRUML

INDUSTRIAL PRODUCTION, SHIPMENTS AND INVENTORIES INDEX (1970 EQUALS 100, S.A.) PERCENT CHANGE FROM PRIOR PERIOD IN PAREN

| | MIN. AND MFG. PRODUCTION | PRODUCERS' SHIPMENTS | INVENTORY SHIPMENTS RATIO |
|--|--------------------------|----------------------|---------------------------|
|--|--------------------------|----------------------|---------------------------|

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QUARTERLY DATA:

| | | | |
|--------------|-------------|-------------|-----------------|
| 1975 OCT-DEC | 112.3 (0.8) | 117.4 (2.1) | 137.7 (MIN 1.9) |
|--------------|-------------|-------------|-----------------|

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| | | | |
|--------------|-------------|-------------|-----------------|
| 1976 JAN-MAR | 118.8 (5.8) | 124.1 (5.7) | 129.7 (MIN 5.8) |
|--------------|-------------|-------------|-----------------|

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| | | | |
|----------|-------------|-------------|-----------------|
| APR-JUNE | 125#2 (5.4) | 129.4 (4.3) | 122.0 (MIN 5.9) |
|----------|-------------|-------------|-----------------|

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PAGE 03 TOKYO 18954 290939Z

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|---------|-------------|-------------|-----------------|
| JUL-SEP | 126.6 (1.1) | 130.4 (0.8) | 120.9 (MIN 0.9) |
|---------|-------------|-------------|-----------------|

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MONTHLY DATA:

| | | | |
|-----|--------------|--------------|-------------|
| SEP | 125.5 (-0.4) | 128.8 (-1.5) | 123.2 (2.7) |
|-----|--------------|--------------|-------------|

| | | | |
|-----|-------------|--------------|-------------|
| OCT | 125.7 (0.2) | 126.9 (-1.5) | 126.4 (2.6) |
|-----|-------------|--------------|-------------|

| | | | |
|-----|-------------|-------------|-----------------|
| NOV | 128.5 (2.2) | 131.3 (3.5) | 124.3 (MIN 1.7) |
|-----|-------------|-------------|-----------------|

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4. TOKYO CONSUMER PRICE INDEX ROSE 1.0 PERCENT IN DECEMBER. AS A RE-

ESULT, INDEX (JEI 422) IS NOW 10.5 PERCENT ABOVE YEAR-EARLIER LEVEL, THE FIRST TWO-DIGIT FIGURE ON YEAR-OVER-YEAR COMPARISON SINCE APRIL. EPA OFFICIALS CONCEDED IN PRESS INTERVIEW THAT GOJ GOAL OF LIMITING ANNUAL INCREASE IN CONSUMER PRICES TO 8 PERCENT BY NEXT MARCH WILL BE HARD TO ACHIEVE. HOWEVER, OFFICIALS MAINTAINED THAT 8 PERCENT TARGET COULD BE MET IF THERE ARE NO ABNORMAL INCREASES IN

FRUIT AND VEGETABLE PRICES DURING FIRST QUARTER OF 1977.
 ONE MAJOR CONTRIBUTOR TO DEC RISE IN OVRALL INDEX WAS SHARP
 INCREASE IN TELEPHONE AND TELEGRAPH FEES. IMPACT OF FEE HIKE
 AND INCREASES IN RENT, AND OTHER ITEMS OUTWEIGHED DECLINES
 IN PRICES OF FOOD AND CLOTHING.

TOKYO CONSUMER PRICE INDEX
 INDEX (1970 EQUALS 100, N.S.A.) PERCENT CHANGE
 FROM PRIOR MONTH

| | | |
|-----|---------------|-----|
| OCT | 112.5 | 0.9 |
| NOV | 112.9 | 0.4 |
| DEC | 114.0 (PREL.) | 1.0 |

5. THE BANK OF JAPAN ANNOUNCED ON DEC 24 LIMIT ON CREDIT
 GROWTH FOR NEXT QUARTER UNDER ITS "ADMINISTRATIVE
 GUIDANCE." INCREASE IN LIMIT FOR TOTAL LOANS FOR THE 13 CITY
 BANKS WAS SET AT 1,130 BIL YEN FOR JAN-MAR QUARTER IN 1977,
 1.4 PERCENT SMALLER INCREASE THAN THAT REGISTERED IN THE
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PAGE 04 TOKYO 18954 290939Z

FIRST QUURER OF 1976. THIS WILL BE THE SECOND QUARTER IN
 A ROW FOR WHICH CREDIT EXPANSION IS SMALLER THAN A YEAR
 EARRIER. NEVERTHELESS, THE FIGURE WAS LARGER THAN PRESS HAD

PREVIOUSLY INDICATED. BOJ OFFICIAL PREDICTED
 PRIVATE DEMAND FOR FUND WILL REHAIN WEAK IN COMING QUARTER.;
 8, *-:5, CITY BANK SOURCE PREDICTED 1,130 BIL YEN CREDIT
 INCREASE WILL BE MORE THAN THEY WILL ACTUALLY NEED FOR JAN-
 MAR QUARTER OF 1977. THROUGHOUT FIRST THREE QUARTERS OF THIS
 YEAR, INCREASE IN LOANS BY THE 13 CITY BANKS HAS NOT REACHED
 THE CEILING BOJ SET FOR EACH QUARTER. EMBASSY ESTIMATES
 CREDIT EXPANSION AT END OF MARCH NEXT YEAR, USING THE QUARTERLY
 LIMITS ON CREDIT GROWTH (RIGHT HAND COLUMN IN TABLE
 BELOW). CREDIT GROWTH IS LIKELY TO SLOW DOWN FURTHER
 DURING JAN-MAR QUARTER IN 1977 TO AROUND 10 PERCENT ABOVE
 YEAR-EARLIER LEVEL.

CITY BANK LENDI L LIMITS
 INCREASE IN LIMIT OUTSTANDING LOANS
 PCT CHANGE FROM AND DISCOUNTS AT END
 IN BIL YEN PRIOR YEAR OF QUARTER, PERCENT
 CHANGE FROM PRIOR YEAR (A)

| | | | |
|--------------|-------------|------|-------------|
| 1976 JAN-MAR | 1,146 | 22.6 | 11.1 |
| APR-JUNE | 1,042 | 28.8 | 11.3 |
| JUL-SEP | 1,299(REV.) | 1.7 | 11.0 (REV.) |
| OCT-1\$3: | 1,550 | -4.3 | 10.5 (EST.) |
| 1977 JAN-MAR | 1,130 | -1.4 | 10.2 (EST.) |

(A) TOTAL LOANS AND DISCOUNTS BY CITY BANKS INCLUDE SMALL
 AMOUNTS OF FOREIGN CURRENCY LOANS NOT INCLUDED IN LENDING

LIMITS.

6. CALL MONEY MARKET RATES IN JAPAN WERE RAISED AGAIN, BY
0.5 PERCENT, EFFECTIVE DEC 24, FOLLOWING WPMWT PERCENT
RATE INCREASE ON NOV 29. WITH IN ONE MONTH SHORT-TERM MONEY
RATES IN JAPAN HAVE BEEN RAISED TWICE, REFLECTING SEASONAL
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PAGE 05 TOKYO 18954 290939Z

CREDIT TIGHTENING AROUND YEAR-END. AS RESULT, CALL
RATE (UNCONDITIONAL) NOW STANDS AT 7.5 PERCENT PER ANNUM.
BILL DISCOUNT RATE HAS REMAINED AT 8.00 PERCENT PER
ANNUM SINCE NOV. 1.
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